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Reply to [REDACTED] Comments on CIA Paper (CIA/RR MP-94).

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1. The author appreciates the frankness of the [REDACTED] comments and believes that a revision of MP-94 would profit from them.

2. In view of the harshness of some of the comments, the author wonders whether the reviewer noticed the cover of MP-94 which specifies that the effort represents a working paper that should be regarded as provisional and subject to revision. Clearly, the paper would gain from a more frequent use of the word estimate appropriately qualified in referring to certain categories of information. On the other hand, the paper cautions (Page 3) that the deductions based on estimates of the magnitude and composition of the gross national product can give, at best, only a rough indication of trends of particular components. MP-94 contains twenty-seven references to sources and also additional footnotes to tables which it was hoped would give readers an opportunity to appraise for themselves the sources used and the methods employed. Inadvertently, a reference to Table 2 showing the source of the estimates of the real GNP was omitted. These estimates, taken from source (6) in the appendix, page 16, are somewhat better than intelligent guesses, but scarcely much more than that. The percentage distribution of the GNP shown in Table 1, however, represents considerably more careful calculations.

3. Clearly, the gross national product approach does not pretend to estimate the changes in the expenditure on armaments. Rather, it was presented as background material in order to facilitate an understanding of such matters as diversion of resources from investment and consumption to defense and at the same time give a rough indication of the relative magnitudes of these components of the GNP. Used in this manner, the gross national product approach appears defensible.

4. Criticism of Table 3 appears justified but not directly for the reasons stated [REDACTED]. The closeness of the two indexes is attributable largely to the particular estimates of the real GNP used by Rand in conjunction with the percentage distribution of the GNP among its components for the years considered. A significantly differing set of estimates for the real GNP would destroy the close correspondence between the indexes shown in Table 3. In addition, it appears that the Rand index in Table 3 is faulty as a measure of real changes in defense expenditures since the method followed in its construction in effect uses a general price index as a deflator of defense expenditures, whereas a price index of goods and services in the defense sector alone would be more appropriate. The significance of the close correspondence of the two indexes, therefore, needs further investigation.

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5. The author agrees that there is much scope for improvement of basic data. At various points in the manuscript he stresses the roughness of estimates and invites the reader to consult the sources used (e.g., page 7). In most cases, the complications criticized [REDACTED] are such that their elimination would have little effect on the broad conclusions concerning the trends in rearmament.

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